

Info Sheet 1

Three Taxes That Influence Behavior

Theme 5: Impact of Taxes

Lesson 1: How Taxes Influence Behavior

Listed below are three excise taxes designed to influence the behavior of taxpayers. Think about how these taxes affect your life.

1. A **sin tax** taxes products or services considered unhealthy. It is used to discourage the use of products that pose a health risk, such as tobacco and alcohol. Puritan colonists used the earliest sin taxes in this country. The sin tax is a regressive tax. People with lower incomes pay a larger percent of their income for these taxes than do people with higher incomes.



2. The **gasoline excise tax** is not meant to discourage use of gasoline. It is a user tax. Gas tax revenues are used to maintain and build roads and highways, and regulate underground pollution caused by gas storage. Urban area mass transportation have been developed and maintained since 1982 with these funds.



3. **Luxury taxes** tax expensive, nonessential items, such as luxury cars. Tax revenue is redistributed through government programs that benefit all. The luxury tax is a progressive tax. Goods or services taxed as luxury goods give them an appeal that can make people want to own them even more. There is a certain prestige in owning an item that is considered a luxury. By creating a demand, luxury taxes can generate more revenue. But when a luxury tax becomes too steep, people may choose to stop purchasing a particular product.

